

Message Text

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ACTION EB-11

INFO OCT-01 ADP-00 NEA-10 RSR-01 RSC-01 L-03 SS-15 SSO-00

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TO SECSTATE WASHDC NIACT IMMEDIATE 3678

INFO AMEMBASSY BEIRUT

AMEMBASSY JIDDA

C O N F I D E N T I A L CAIRO 2598

STADIS

EO 11652: GDS

TAGS: BEXP

SUBJECT: SUMED

REF: CAIRO 2599

1. ROGER TAMRAZ CAME TO MY OFFICE ON AUGUST 28 AND SAID THAT HE HAD RECEIVED A PHONE CALL JUST BEFORE HE HAD LEFT BEIRUT FROM HIS LAW FIRM IN HOUSTON, TEXAS, CONCERNING EXIM PARTICIPATION IN THE SUMED NEGOTIATIONS. HIS LAWYERS HAD TOLD HIM THAT EXIM HAD DECIDED TO IMPOSE SEVERAL DIFFICULT CONDITIONS FOR EXIM PARTICIPATION IN THE SUMED PROJECT. THE CONDITIONS WOULD APPARENTLY REQUIRE RENEGOTIATION OF THE THROUGHPUT AGREEMENTS WITH THE TEN OR TWELVE CONCERNED OIL COMPANIES AND THE PROCESS OF RENEGOTIATION, EVEN IF THE CONDITIONS WERE EVENTUALLY ACCEPTED BY THE OIL COMPANIES, WOULD SET THE PROJECT BACK FOR A PERIOD OF MONTHS. THESE CONDITIONS WERE:

A. AMENDMENT OF CLAUSE IN THROUGHPUT AGREEMENTS CONCERNING LIABILITY OF OIL COMPANIES IN CASE OPERATION OF PIPELINE IS INTERRUPTED BY FORCE MAJEURE. IMF WISHES TO LIMIT MORE SHARPLY THE RIGHT OF THE OIL COMPANIES TO STOP PAYMENT IN SUCH CASE.

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PANIES TO STOP PAYMENT IN SUCH CASE.

B. PRESENT CONTRACTS CONSIDER BLOCKAGE OF OIL BY ARAB BOYCOTT OR NATIONALIZATION OF OIL FIELDS TO BY FORCE MAJEURE. EXIM BANK IS INSISTING THAT NON-AVAILABILITY OF OIL SHOULD NOT BE CONSIDERED AS FORCE MAJEURE AND COMPANIES BE OBLIGATED TO PAY AS REQUIRED BY THE CONTRACT, EVEN IF THEIR OIL SUPPLIES ARE NO LONGER AVAILABLE. TAMRAZ POINTS OUT THAT EVEN IF OIL FIELDS WERE NATIONALIZED, SUMED PIPELINE WOULD LIKELY BE USED TO TRANSPORT OIL TO EUROPE AND IT THEREFORE UNREASONABLE TO HOLD THE OIL COMPANIES TO PAY IN THAT CASE. SUMED COULD COLLECT FEES FROM NEW OWNERS.

C. EXIM ALSO APPARENTLY INSISTING ON ADVANCE PAYMENT OF FIRST YEAR'S ROYALTIES BEFORE PIPELINE BEGINS OPERATING.

2. SINCE EGYPTIANS HAVE BEEN PROMISED SOME DECISION ON PRELIMINARY COMMITMENT BY EXIM PRIOR TO SEPTEMBER 1, TAMRAZ ASKED IF DEPARTMENT CAN ASCERTAIN EXIM'S EXACT POSITION ON THE ABOVE POINTS AND ADVISE USINT, SO THAT TAMRAZ, IN CONSULTATION WITH USINT, CAN DECIDE NEXT STEPS IN DEALING WITH EGYPTIANS.

3. WHILE KIDDER, PEABODY FINANCING PACKAGE COULD POSSIBLY BE PUT TOGETHER WITHOUT EXIM PARTICIPATION, INTEREST RATES WOULD INCREASE SUBSTANTIALLY AND WOULD MAKE PROJECT MUCH LESS COMPETITIVE WITH OTHER PROPOSALS NOW UNDER CONSIDERATION. ALTERNATIVE PROJECTS WOULD HAVE REDUCED PERCENTAGE OF US PARTICIPATION, AND FAILURE OF EXIM TO PARTICIPATE WOULD ANTAGONIZE BOTH SAUDIS AND EGYPTIANS, WHO WOULD BE LIKELY TO CONCLUDE THAT AMERICAN FIRMS HAD LED EGYPT DOWN THE GARDEN PATH.

4. REQUEST DEPARTMENT URGENTLY CONSULT WITH EXIM TO DETERMINE EXACT LANGUAGE OF THEIR CONDITIONS. DEPARTMENT MAY ALSO WISH TO POINT OUT THAT ANY CONDITION REQUIRING RENEGOTIATION OF OIL USERS CONTRACTS WOULD, FOR PRACTICAL PURPOSES, CREATE IMPOSSIBLE BARRIER TO EXIM PARTICIPATION, SINCE EGYPTIANS ARE NOW ANXIOUS TO PROCEED PROMPTLY WITH CONFIDENTIAL

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CONSTRUCTION AND WOULD BE MOST RELUCTANT TO GO THROUGH EXTENDED PROCESS OF RENEGOTIATING ALL THEIR USER AGREEMENTS.

5. IF KIDDER, PEABODY LOSES SUMED PROJECT, THEIR CHANCES OF WINNING ALEXANDRIA REFINERY PROJECT (SEE CAIRO 2599) WOULD ALSO BE JEOPARDIZED.
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